

Message Text

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ACTION AF-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-01

INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06

SP-02 LAB-04 EPG-02 SIL-01 OMB-01 NSC-05 SS-15

STR-04 CEA-01 AGR-10 /101 W

-----070541Z 045749 /11

R 060725Z MAR 77

FM AMEMBASSY GABORONE

TO SECSTATE WASHDC 9879

INFO AMCONGEN CAPETOWN

AMCONGEN JOHANNESBURG

AMEMBASSY LUSAKA

AMEMBASSY MAPUTO

AMEMBASSY MASERU

AMEMBASSY MBABANE

AMEMBASSY PRETORIA

UNCLAS GABORONE 1022

DEPT. PASS AID

E.O.11652: N/A

TAGS: EFIN, BC

SUBJECT: REVALUATION OF BOTSWANA CURRENCY

REF: GABORONE 0975

1. ON 5/3/77 GOB HELD BRIEFING FOR FOREIGN MISSIONS RE RATIONALE FOR REVALUATION OF PULA. MEETING OPENED BY VICE PRESIDENT AND MIN FIN AND DEV PLAN MASIRE, BUT CONDUCTED BY PERM SEC GAOLATLHE AND DIRECTOR OF ECONOMIC AFFAIRS STEVENS.

2. GOB PRESENTATION DIFFERED ONLY IN DEGREE OF DETAIL FROM APRIL 30 RADIO ADDRESS BY VICE-PRESIDENT FIRST ANNOUNCING 5 PER CENT PULA REVALUATION EFFECTIVE 11:00 A. M. ON APRIL 30. (COPY OF SPEECH BEING POUCHED TO WASHINGTON).

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3. DETAILED DESCRIPTION OF PROBLEM AND RESULTANT GOB ACTION WAS ALONG FOLLOWING LINES.

(A) BOTSWANA ECONOMY DEPENDENT ON RSA FOR 70-75 PER CENT OF IMPORTS.

(B) RSA RECENTLY ANNOUNCED FISCAL ACTIONS: RAISING SALES AND EXCISE DUTIES AND RAILWAY FREIGHT RATES 20 PER CENT TO 25 PER CENT, LEVIED TARRIF SURCHARGE OF 25 PER CENT ON COMMON CUSTOMS AREA IMPORTS, AND REDUCED SUBSIDY ON BASIC FOODSTUFFS (PARTICULARLY BOTSWANA STAPLE, MAIZE).

(C) RSA IS FIGHTING DOMESTIC INFLATION PROBLEM WITH MEASURES DESIGNED IMPROVE BALANCE OF PAYMENTS AND RESERVES RAND MONETARY AREA.

(D) GOB NO LONGER BELONGS RAND MONETARY AREA, RSA ACTIONS AFFECT BOTSWANA NEGATIVELY (EXPORT RSA INFLATION), SO GOB USING FLEXIBILITY PROVIDED BY INTRODUCTION OF OWN MONETARY SYSTEM IN AUGUST 1976 TO PROTECT ITSELF.

(E) INFLATION WAS 10 PER CENT IN 1974, 17 PER CENT IN 1976 AND IS PROJECTED AT 20 .PER CENT IN 1977, WITHOUT REVALUATION. LOW INCOME PEOPLE MOST SEVERELY AFFECTED. RSA STATISTICS DO NOT REFLECT 1976/1977 RATES BECAUSE THEY BASED ON WHITE PPOPU-LATION AND IGNORE PROBLEMS OF BALCKS. REVALUATION WILL REDUCE PROJECTED 1977 INFLATION TO 17 PER CENT LEVEL.

(F) INTRODUCTION OF PULA REVALUATION AS DEFENSIVE MEASURE AGAINST RSA AND TO PROVIDE EQUITY TO LOW INCOME PEOPLE STRESSED.

(G) REVALUATION WILL:

(1) REDUCE PRESSURE FOR WAGE INCREASE AT NEXT ROUND LABOR NEGOTIATIONS, WHICH BENEFITS ALL BOTSWANA,
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2) RESULT IN 5 PER CENT REDUCTION IN PRICES OF IMPORTED GOODS FOR CONSUMERS,

(3) RESULT IN 3 PER CENT DROP IN BOTSWANA COST OF LIVING INDEX FOR LOW INCOME PEOPLE, AND

(4) RESULT IN NO LOSS OF FOERGN EXCHANGE EARNINGS.

(H) ON NEGATIVE SIDE, REVALUATION WILL:

(1) CAUSE EXPORTERS (MINE AND BMC) TO SUFFER BY EXTENT LOWER EARNINGS NOT OFFSET BY LOWER PRICE OF IMPORT REQUIREMENTS/COMPONENTS,

(2) PERMIT TRADERS MAKE INITIAL WINDFALL PROFITS ON INVENTORIES, BUT PERMIT PRICE STABILITY UPON RESTOCKING,

(3) RESULT IN 4-5 PER CENT DROP IN NATIONAL INCOME, ALTHOUGH THIS OFFSET BY MORE EQUITABLE DISTRIBUTION OF BUDERN, AND

(4) CAUSE FOREIGN ECONOMIC ASSISTANCE PROJECTS TO BE 5 PER CENT UNDER-FUNDED.

(I) SPECIAL CONSIDERATION GIVEN TO BMC AND PROBLEM OF REMITTANCE FROM BOTSWANA WORKERS IN RSA.

(1) LIKE MINING INDUSTRY, BMC HAS BENEFITING FROM PAST DEVALUATIONS. IN THIS CASE, DROP IN RECEIPTS MAY BE ABSORBED BY BMC, AND BE MITIGATED BY LOWER PRODUCTION/DELIVERY COSTS. HOWEVER, THIS IS DECISION WHICH BMC WILL CONTROL.

(2) IN SHORT RUN, WORKERS RETURNING FROM SA WILL HAVE ACHIEVED WINDFALL PROFITS ON CONVERTED REMITTANCES SAVED. IN LONGER TERM WORKERS WILL HAVE REDUCED BUYING POWER, BUT THEIR SACRIFICE BENEFITS LOWER INCOME GROUPS.

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(J) BOTSWANA'S BALANCE OF PAYMENTS SATISFACTORY, BUT NOT SO STRONG AS TO JUSTIFY REVALUATION, EXCEPT IN TERMS OF SPECIAL CIRCUMSTANCES GENERATED BY RSA.

(K) GOB ANTICIPATES NEGATIVE REACTION FROM SEVERAL OTHER COUNTRIES BUT BELIEVES BOTSWANA RELATIVELY WELL-PROTECTED FROM SERIOUS ECONOMIC REACTION.

4. COMMENT: GOB CONGRATULANT THAT REVALUATION ACTION TAKEN IS RELATIVELY NOVEL APPROACH TO PROBLEM OF RSA-EXPORTED INFLATION. KEYS TO EFFECTIVENESS WILL BE:

(A) EXTENT TO WHICH BMC ABSORBS DROP IN PULA PROFIT AND MAINTAINS PRODUCER PRICES (DOMESTIC EFFECT),

(B) EFFECTIVENESS RELATIVE PRICE STABILITY OVER LONG RUN, AND,

(C) ABILITY OF MINING AND BEEF SECTORS TO INCREASE EXPORT PRODUCTION SUFFICIENTLY TO ASSURE NO REDUCTION IN SIZE OF BOTSWANA'S FOREIGN EXCHANGE HOLDINGS. WITH REGARD FOREIGN EXCHANGE HOLDINGS, GOB ANTICIPATES CONTINUED STEADY GROWTH. IT IS NOT UNREASONABLE TO EXPECT EVENTS TO TRANSPIRE AS GOB ANTICIPATES, ALTHOUGH BMC MAY NOT MAINTAIN PRODUCER PRICES OVER LONG RUN. ALBERTI

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